# PepsiCo, Inc. Annual Report 1975

1974

1973

1972

1971

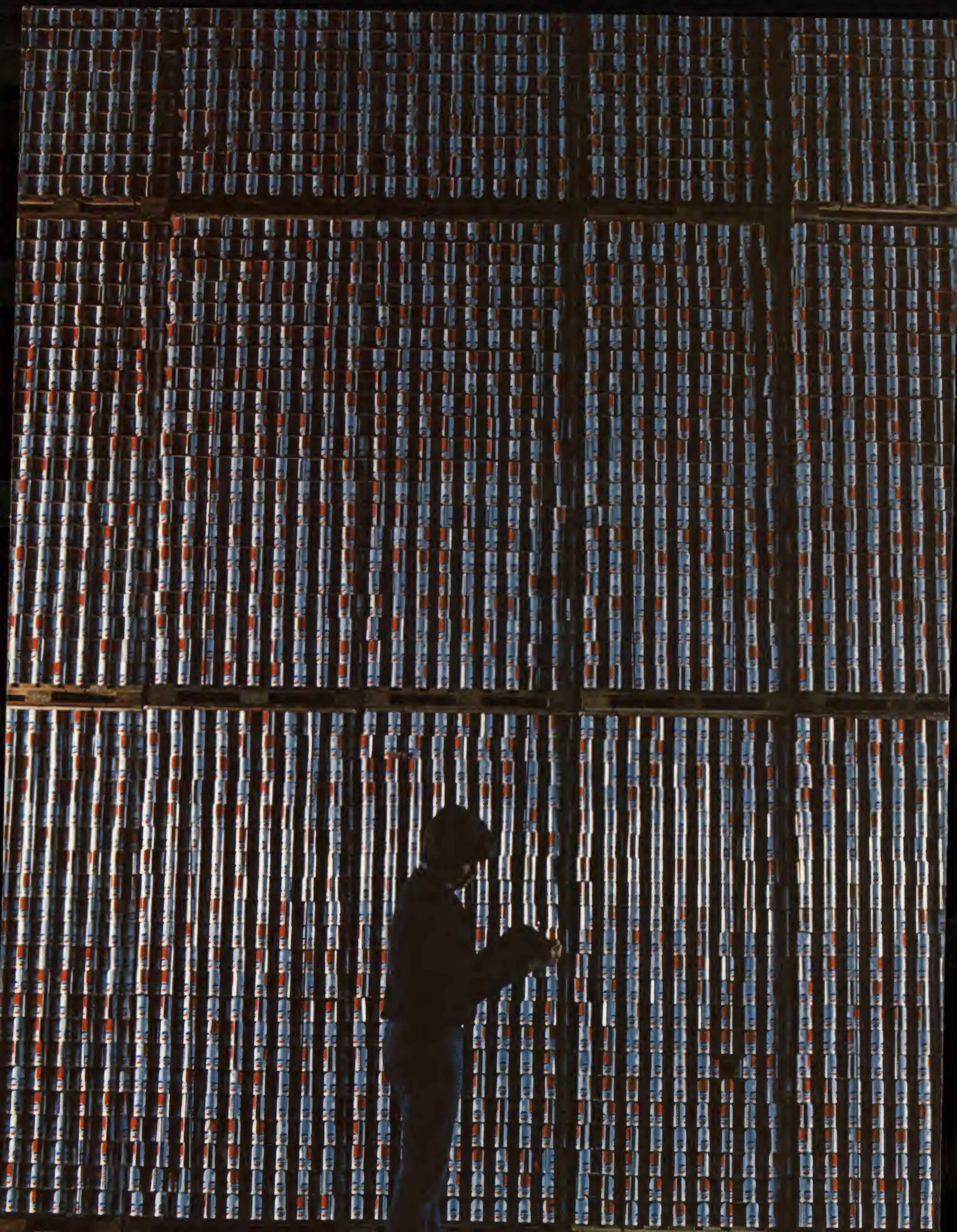
1970

1969

1968

1967

1966



Opposite: A worker checks inventory at the can fabrication plant in Howell, Michigan, built in 1972 to supply more economically the needs of Pepsi-Cola Company and franchisee canning facilities in three Midwestern states. It has an annual production capacity of 200 million cans.



Contents



Cover: The concrete marker on Anderson Hill Road in Purchase, New York, at the main entrance to PepsiCo's World Headquarters is symbolically segmented to represent the corporation's growth during the 10 years since its founding in 1965.

The following are among the trademarks of PepsiCo and its subsidiaries and affiliates registered in the U.S. and in numerous countries throughout the world: "Pepsi-Cola," "Pepsi," "Pepsi Light," "Diet Pepsi-Cola," "Diet Pepsi," Mountain Dew," "Mirinda," "Yago Sant'Gria," "Stolichnaya," "Nazdorovya," "Fritos," "Lay's," "Doritos," "Sunchips," "Prontos," "Ruffles," "Chee•tos," "Sabritas," "Wilson 1200," "T3000," "T4000," "Wilson Staff," "Wilson ProStaff," "Advantage."

**PepsiCo: A decade of progress**

In the 10 years since Pepsi-Cola Company joined with Frito-Lay, Inc., to form PepsiCo, Inc., the corporation has become increasingly well known to American consumers through a growing array of famous and popular brand-name products—Pepsi-Cola and Mountain Dew; Fritos corn chips, Lay's potato chips and Doritos tortilla chips; Wilson sporting goods; Yago Sant'Gria—and for the transportation services of northAmerican van lines.

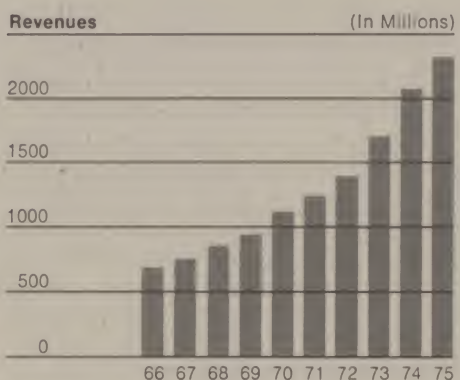
PepsiCo is known, too, around the world—in 134 countries and territories where Pepsi-Cola is sold, and in many of those nations for its quality food products, the sale of Wilson sporting goods, and the presence of northAmerican agents.

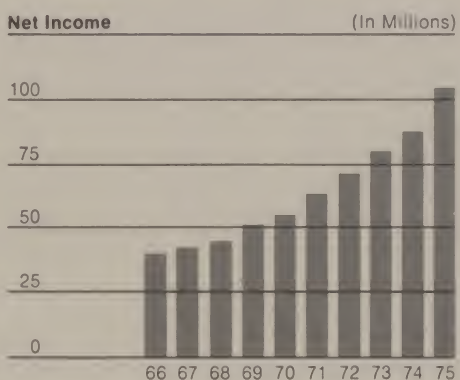
In the American financial community, and to its Shareholders in 85 countries abroad, PepsiCo is known for its record of continued stable growth. Its sales and revenues have increased 236 percent from $691.7 million in 1966 to 1975's total of $2.3 billion. Its earnings increase—from $40.4 million to $104.6 million—has averaged better than 10 percent per year, and reached a peak rate of 20 percent in the year just ended. Dividends have risen from $17.2 million in 1966 to $35.6 million in 1975; and Shareholders' equity has grown from $208.9 million in 1966 to $627.2 million in 1975.

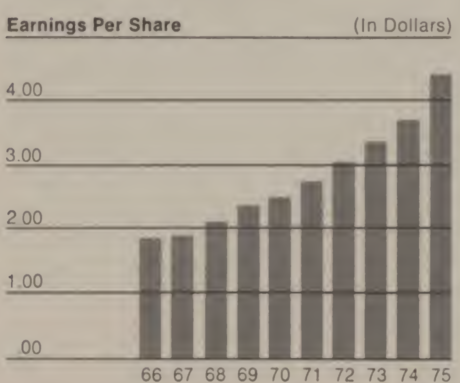
This decade of growth and stability has reconfirmed PepsiCo's enviable reputation not only as an attractive investment, but also as a progressive innovator, dynamic marketer and respected corporate citizen.

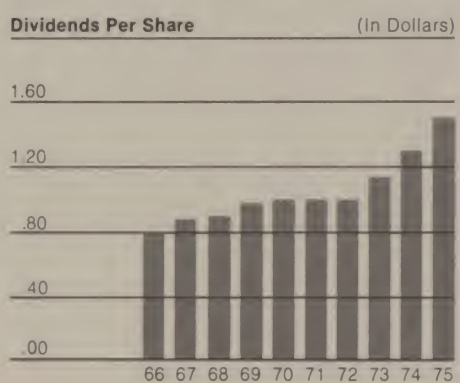
## Financial Highlights

| | **1975** | 1974 | Change |
|---|---|---|---|
| Revenues | **$2,321,243,000** | $2,094,298,000 | +11% |
| Net income | **$104,600,000** | $87,419,000 | +20% |
| Net income per share | **$4.41** | $3.69 | +20% |
| Average shares outstanding | **23,745,000** | 23,710,000 | – |
| Dividends | **$35,607,000** | $30,826,000 | +16% |
| Long-term debt | **$282,315,000** | $348,998,000 | −19% |
| Shareholders' equity | **$627,173,000** | $556,926,000 | +13% |



## To our Shareholders:

WILLIAM GLASS

Donald M. Kendall, *Chairman and Chief Executive Officer*

Andrall E. Pearson, *President*

During the year, our corporation marked the tenth anniversary of its identity as PepsiCo, Inc. For that reason, we have devoted a major portion of this Report to a review of developments in each of our lines of business during that decade. We hope you will agree that in that relatively brief 10-year period there have been enormous improvements in each of our major operations.

Happily, we concluded our first decade with the most remarkable year in our history.

PepsiCo's revenues and earnings again set new records in 1975. Revenues rose 11 percent to $2.3 billion. Net income was up 20 percent to $104.6 million. Earnings per share increased 20 percent to $4.41—our largest year-to-year increase to date.

Several reasons contributed to that exceptional performance.

Although consumers' disposable incomes in real terms remained below the prior year's level throughout most of 1975—despite some moderation in the continuing pattern of inflation, recession and lower employment—shoppers continued to spend an increased portion of their food dollars on our principal products, soft drinks and snack foods.

We continued to increase the market shares of all our major products and services. Their unit volumes were returning to more normal growth trends, so that by the final quarter of 1975 our dollar sales increases were closely paralleling unit sales increases, rather than the effects of inflation.

Meanwhile, management intensified a number of programs aimed at greater productivity, more effective utilization of assets, and more stringent controls over costs and capital investment.

The overall result was a significant improvement of our profit margin and other key financial ratios: our pretax margin rose a full point to 8 percent; return on Shareholders' equity rose a full point to 16.7 percent; and return on assets rose substantially. These higher returns and a stronger cash flow enabled us to reduce total debt by about $145 million to $343 million, and to lower our debt-to-total capitalization ratio to 35 percent, its lowest level in six years.

The following is a brief review of some highlights of 1975 operations in various areas of our business:

**Pepsi-Cola Company.** Volume growth during the year, although modest, was at a rate exceeding that of the soft drink industry as a whole. Following several years' continuous improvement in its share of the market, Pepsi-Cola became in 1975 the most popular soft drink in U.S. food stores. At the same time, Diet Pepsi-Cola and Mountain Dew made strong improvements in their respective markets.

The decline in sugar prices during the year to less than a third of their 1974 high level was of considerable benefit to the soft drink industry. With their margins finally recovering, bottlers were in a position to hold the line or reduce their wholesale prices, and also to engage in competitive promotional activity that increased the level of soft drink sales, and hence their purchases of Pepsi-Cola concentrate.

**Frito-Lay, Inc.** The snack food industry also reflected an improv-

Top: Pepsi Light, introduced in 30 cities during the year, offers full cola taste plus a touch of lemon—but only half the calories of regular cola.

Below: Sunchips—thin, light corn chips, stacked uniformly and packed in crushproof canisters, were test-marketed in Lubbock, Texas and Columbia, South Carolina.

ing condition in 1975. Inflation in raw material costs eased, selling prices stabilized, and margins began to recover. Demand for snack foods, which had held up quite well through the recession, strengthened markedly in the second half of the year. Most important to Frito-Lay, however, was the success of several ongoing internal programs (described later in this Report) that produced significant improvements in operating efficiency, better utilization of assets, and hence a very substantial gain in its profit contribution during 1975.

While the sales volume of such long-established market leaders as Fritos corn chips, Lay's potato chips, and Doritos tortilla chips continued to grow, the division's research and development facilities continued to test market and introduce such new products as Prontos crunchy-grain chips and Sunchips.

During the year, staff additions representing broader technical experience enhanced the capability of the research and development facility to create future products appealing to an even wider potential consumer market.

**PepsiCo International.** Expansion of soft drink operations outside the U.S. continued during the year with the opening of 21 new franchisee-owned bottling plants serving 16 countries—four of them new markets for Pepsi-Cola—bringing the total served to 134.

New plants were opened by franchisees in Djibouti, Afars & Issas; Sa Da Bandeira, Angola; Rio Gallegos, Argentina; Curitiba and Ribeirao Preto, Brazil; San Andres, Colombia; Port-au-Prince, Haiti; Johore, Malaysia; Ciudad Juarez, Mexico; Ibadan, Nigeria; Muscat, Oman; Lyallpur, Pakistan; Bougainville, Lae and Madang, Papua New Guinea; Lodz and Szczecin, Poland; Murcia, Spain; Isparta, Turkey; and Banja Luka and Osijek, Yugoslavia.

Meanwhile, an intensive program of market development through product and package innovations created additional sales opportunities in a number of established areas.

Diet Pepsi was introduced in 28 areas in six countries—for the first time in the United Kingdom, West Germany, Japan and Guam, as well as in additional areas in South Africa and Australia.

Twenty-six PepsiCo flavor products—seven of them created this year—were introduced by 36 bottlers in 21 countries.

Twenty-one new package sizes were introduced by 114 bottlers in 18 countries.

Strong volume gains—ranging from 14 to over 40 percent—were reported in such diverse markets as Mexico, Brazil, Belgium, the Netherlands, Poland, Morocco, South Africa, Saudi Arabia, Iran, Turkey, Thailand and Singapore.

**Wilson Sporting Goods.** The golf, tennis and team sports products marketed by Wilson continued to demonstrate their popularity, although the slackening of the general economy slowed the exceedingly high growth of this division shown in recent years.

Several new improved items joined the line during 1975, some of which are shown in the accompanying photographs. In addition, at the end of the year, following extensive testing, Wilson introduced a premium wooden racket,


Top: The Wilson T4000 steel tennis racket offers regular players the extra benefit of a unique damping feature to improve their "feel" of the ball and control of the game; Wilson's newest tennis balls feature an extra-duty felt covering, for longer playing life.

Below: Wilson's ProStaff ball has an aerodynamically improved dimple design that provides greater driving distance and accuracy, plus better greenholding ability and putting characteristics.



the Advantage, designed to give those who prefer to play with wood the ultimate in performance and appearance.

**PepsiCo Transportation.** Continuing its energetic pursuit of new business opportunities, northAmerican increased its leadership in intercity revenues among van lines. It also increased its penetration of the market for moving high-value products, such as computers and other sensitive electronic equipment, and new products, including furniture and other manufactured items, from factory to distribution sites.

The division's PepsiCo Building Systems operation (formerly Mobilease Corp.) completed its arrangement to furnish relocatable structures for use in construction of the Alaska pipeline, and was awarded a major contract to provide 1,862 structures for use as relocatable classrooms in the State of Florida.

The planned acquisition of Lee Way Motor Freight Inc., announced during 1975 and now pending approval by the Interstate Commerce Commission, is expected to provide a profitable extension of this division's activities. *(See Note 10, page 45.)*

**PepsiCo Foods International.** Paced by the continuing strong gains of Sabritas, the Mexican snack food company acquired 10 years ago, and by the planned growth of the companies in Spain and Venezuela, this division has had an excellent year. Its 1975 sales were nearly half the level of Frito-Lay's at the time of the formation of PepsiCo in 1965. More significantly, after many years of break-even or loss results, the division moved solidly into the black with a meaningful contribution to corporate profitability.

**Monsieur Henri Wines, Ltd.** As a companion product for Yago Sant'Gria, which for the past several years has been one of America's most popular imported wines (and which was successfully introduced in Germany as well last year), a new product, White Yago Sant'Gria, made its first appearance during 1975. The sales of Yago have been adversely affected by sharply increased competition from a number of recent lower-priced entries into the field. Furthermore, the division felt the effect of a lower demand for higher-priced fine imported wines.

Sales of Stolichnaya Russian vodka, marketed exclusively in America by Monsieur Henri, continued to reflect a ready market for this premium quality product.

**PepsiCo Leasing.** In January 1976, an agreement was executed providing for the sale of the Chandler leasing operations to Walter E. Heller International Corp., a diversified international financial services firm. The sale is subject to approval by regulatory authorities. *(Details of this transaction are reported in Note 2 in the financial section, on page 42.)* In March 1976, PepsiCo sold PepsiCo Truck Rental to Gelco Corporation. We anticipate that certain other leasing operations will also be divested in due course.

**Corporate citizenship.** In recognition of the principles of social and economic justice involved, PepsiCo has continued to implement its policy of seeking to provide broad opportunities for employment, training and advance-

Top: White Yago, a companion to popular Yago Sant'Gria, was successfully introduced during the year.

Below: Nazdorovya Russian champagne achieved distribution in major U.S. cities and showed good early results in those markets.

The photographs opposite symbolize PepsiCo's four lines of business: beverages, food, sporting goods and transportation services.


ment, without regard to race, color, sex, religion, age or ethnic origin.

PepsiCo has also taken positive action to ensure that all of our operations meet or exceed legal specifications regarding protection of the environment, and vigorously supports programs fostering consumer awareness of the need for responsible disposal of the containers and packaging materials used for our products.

We are honored by the addition to our Board of Directors of two distinguished members: Clifton C. Garvin, Jr., Chairman and Chief Executive Officer of Exxon Corp., and William L. Lindholm, President of American Telephone & Telegraph Co., both of whom were elected on November 20, 1975. We welcome them both, and look forward to the benefit of their valued experience and counsel. While we regret that T. Vincent Learson resigned from our Board in December, we are proud that it was in order to devote his full attention to his new and important responsibilities as Ambassador-at-Large, Special Representative of the President, and chief of the United States delegation to the Law of the Sea Conference.

On July 24, 1975, the Board of Directors approved an increase in the annual rate of our dividend to $1.60 per share, the fourth dividend increase in the past three years.

Our achievements during the year as well as our progress during the past decade constitute, we believe, an impressive record of which we can all be proud. We wish to express our grateful appreciation to our fellow-Directors for their vision and guidance, our employees for their skilled and imaginative efforts, and to all our Shareholders for their continued confidence and support.

Donald M. Kendall

Donald M. Kendall
*Chairman and Chief Executive Officer*

Andrall E. Pearson

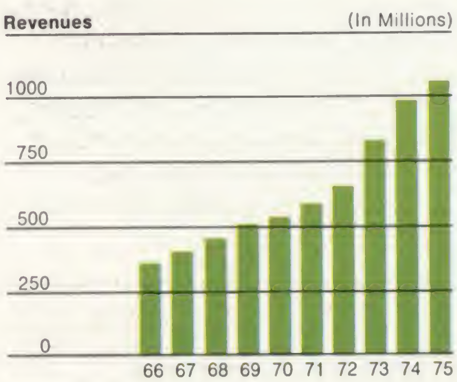
Andrall E. Pearson
*President*

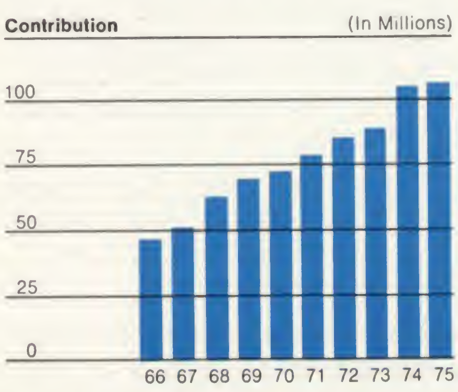
March 5, 1976

# Ten years of growth


# Beverages


Above: The 1965 can package for Pepsi-Cola. (The present can, incorporating the new trademark design, appears at right.)





During 1975, Pepsi-Cola became the most popular soft drink in U.S. food stores.

PepsiCo's beverage-operations sales during its decade of progress have increased 194 percent from $361.9 million in 1966 to $1.1 billion in 1975. In this same period their contribution to overall corporate profit, before income taxes, corporate interest and expense, has grown 122 percent from $48.6 million in 1966 to $107.9 million in 1975. (See charts on opposite page.)

This 10-year increase in sales and profits from beverage operations represents the combined totals of the following: Pepsi-Cola Company, which manufactures soft drink concentrates for 438 independent franchised bottlers in America and for company-owned bottling and distribution facilities in 10 U.S. metropolitan areas; PepsiCo International, which similarly serves 534 franchised bottlers, and 21 company-owned facilities, selling in 134 countries and territories outside the U.S.; United Beverages, consisting of the four former Rheingold Corp. franchise bottling operations (Los Angeles, Orlando, Mexico City and Puerto Rico) acquired in 1972; and Monsieur Henri Wines, Ltd., also acquired in 1972.

**Domestic beverage operations.** Coordinated marketing strategies designed to take advantage of the growth opportunities in Pepsi-Cola's traditional area of strength, the take-home market (supermarkets, chains and other food stores), have produced outstanding results.

Innovations in products and packaging were key elements in implementing Pepsi-Cola's new bid for leadership.

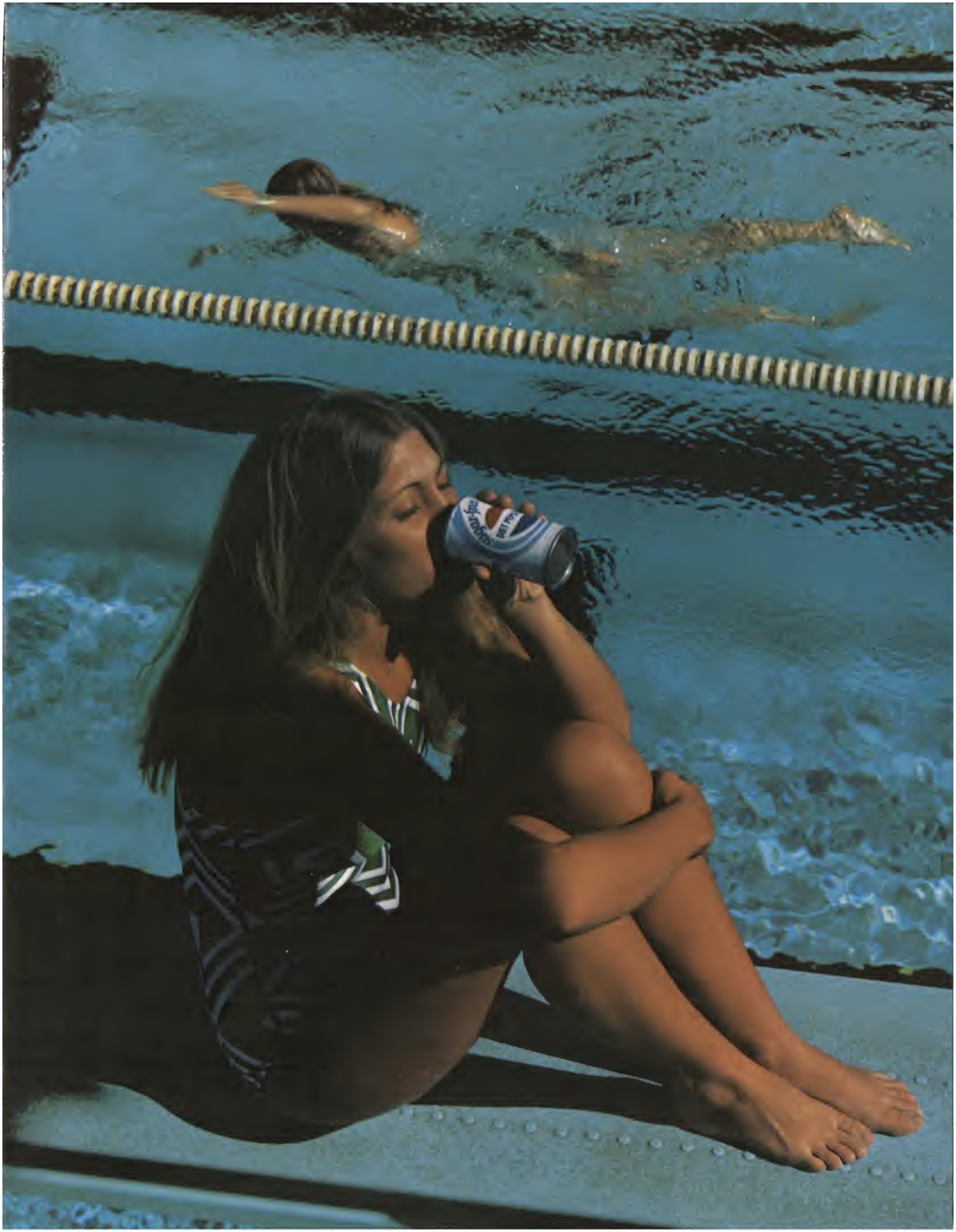
New products were introduced as management coupled more accu-

Mountain Dew, having changed its image from "rustic" to one stressing its sunshiny look, has become one of the fastest-growing soft drinks in the industry.

Opposite: Diet Pepsi-Cola, now sugar-free, has made strong gains among the weight-conscious, greatly improving its market position.

rate, continuing market research with flexible and appropriate responses to its findings. First, the diet product Pepsi-Cola had introduced in the late 1950s was reformulated and renamed Diet Pepsi-Cola, enabling it to share more fully in the basic product's growing recognition. Following the controversial banning of cyclamates as artificial sweeteners in 1969, the product was successfully transformed with a combination of sugar and saccharin, answering what was then the dominant consumer preference. When, over time, it became clear there had developed not one, but two distinct markets for diet colas, management responded by removing sugar entirely from Diet Pepsi and, last year, introducing Pepsi Light—a product with full cola taste plus a hint of lemon, but only half the calories.

In its packaging strategies, Pepsi-Cola continued to pioneer in its sensitivity to consumer preferences. In area after area where purchasing patterns indicated a growing demand for them, the company and bottlers made available non-returnable packages. At the same time, the company was a founding member of the beverage and packaging industry association formed to foster public education in the need for responsible disposal of these new convenience packages. Similarly, when market results demonstrated the value appeal of larger-sized packages offered at attractive prices, Pepsi-Cola's bottle (which, in the 1930s, had been the first to grow from six to 12 ounces) stretched to 16, 32, 48 and even 64 ounces—with enthusiastic public response. From a total of 13 packages available in 1965, Pepsi-Cola in the last 10 years expanded



Opposite: In Mexico, a group of *charros* relax with Mirinda Orange—one of the many flavor products sold by Pepsi-Cola bottlers in 73 countries around the world.

its packaging forms available to the consumer to 19.

In addition, for some years Pepsi-Cola has been conducting basic research into the feasibility of revolutionary new product container materials with improved characteristics in preservation of product quality, esthetic appeal, ease of handling, ecologically acceptable disposal, and economy in consumption of materials and energy in manufacture. Market tests of two types of plastic bottles have been conducted, with excellent consumer acceptance. The most recent test, of a polyester-resin bottle in upstate New York, involved more than one million packages. Production sources for large-scale distribution of these bottles are now being pursued vigorously.

Not only packaging, but all visual elements of Pepsi-Cola's identity took on a new, more visible, and more pleasing appearance with the development of a new framed version of its familiar crown trademark logo, one that readily accommodates itself to virtually any shape or surface. Introduced throughout the U.S. during the early 1970s and now completing worldwide adoption, the new mark has facilitated universal recognition and mutual reinforcement for one of the world's most heavily advertised consumer brand symbols.

Highly creative and strongly motivating advertising campaigns were developed *("Come Alive! You're in the Pepsi Generation," "Taste That Beats the Others Cold," "You've Got a Lot to Live," and "Join the Pepsi People Feelin' Free)*. Meanwhile, distinctive nationwide promotions timed to coincide with major national holidays excited the public imagination and built further brand awareness during those peak selling periods.

These advertising, promotion and merchandising strategies were packaged into a single comprehensive market program made available to all bottlers, along with significant marketing support that made it easier for them to afford the high costs, and enjoy the universal impact, of the prime selling medium, television.

Increasingly sophisticated training programs helped bottler sales personnel to evaluate and increase their market penetration, to gain store approval for additional product displays, and to win for Pepsi-Cola's products the shelf representation their popularity had earned.

For bottlers themselves, whose growing businesses now required greater administrative skills, the company instituted a management education program designed to share with them and their key executives a broad range of contemporary advanced knowledge in financial, personnel, production and marketing management: The Pepsi-Cola Management Institute.

The results of Pepsi-Cola's new strategies, as indicated by periodic independent surveys in food stores, have been increasingly apparent in the past four years, with a steadily improving performance in that all-important distribution channel.

**International beverage operations.** Sales of Pepsi-Cola and companion products outside the U.S. grew dramatically from 1965 to 1975, by 293 percent, and their overseas volume is approaching that of the domestic market.

The number of soft drink operations outside the U. S. has also grown dramatically in the past decade. In 1965, a total of 427 bottling plants served 96 countries and territories; by the end of 1975, that number had grown to 555 plants, making Pepsi-Cola and various companion products available to more than three billion people throughout 134 countries and territories—including the USSR and six other countries in Eastern Europe.

PepsiCo International, like the domestic beverage division, has devoted priority of attention to its principal brand, Pepsi-Cola, on whose universal trademark identity the business depends, but has aggressively pursued the flavor business as well. (Cola beverages, despite their fast-growing popularity, are still relatively unfamiliar in many parts of the world, whereas fruit-based flavors have long been favorites.) Sales of the division's flavor products have grown 563 percent in the last 10 years.

PepsiCo's Mirinda flavor line, sold in 39 countries in 1965 and now available in 73, has become a famous international brand in its own right—particularly Mirinda Orange. Special formulations of PepsiCo's flavor drinks conform to varying legal requirements, as well as a wide range of national taste preferences—whether they be Germany's liking for a cola-with-orange or the Japanese fondness for "natural" drinks (to satisfy which a noncarbonated, 100-percent-juice drink has been introduced).

The total soft drink market, worldwide, is estimated at about 12


PEPSI
CON

This young couple visiting Bangkok's Wat Pho were among the Pepsi drinkers who helped produce important gains during the year in Thailand.

billion cases of 8-ounce product yearly, over 60 percent of it outside the U.S. in a market growing faster than the domestic one. U.S. total per capita consumption—well over 400 bottles per person annually—still leads the world, but with increasing market development, a few countries are approaching that mark, and many now have per capitas of more than 200.

PepsiCo's growth in that market has, for several years, been at a faster pace than that of the industry as a whole. Expansion into such populous new areas as Indonesia and the Soviet Union has accounted only in part for that growth; the bulk of it has been from ever more intensive development of longer-established areas—through facilities expansion, extension of distribution, more effective sales and merchandising techniques, and through innovation in its products and packaging materials and sizes.

Larger-size packaging, such as the liter bottle (slightly larger than the U.S. quart), has met with widespread success in different parts of the world. Convenience packaging, in the developed countries, has proceeded rapidly (in recent years, for example, new canning plants were inaugurated in West Germany and Italy). While such new packaging represents, overall, only a relatively small segment of the division's total business, the rate of its growth in recent years has been considerable.

With the formation of PepsiCo in 1965, PepsiCo International was established as a separate, decentralized division, so that it would be truly international in

In the Soviet Union, and in six other nations of Eastern Europe, Pepsi-Cola has become a welcome part of daily life for millions of new consumers.

Yago

Opposite: American consumers have discovered the pleasures of light, inexpensive wines. Yago Sant'Gria is one of their favorites.

character, rather than an American company doing business abroad. Responsibility for coordinating strategic planning remains with headquarters; otherwise, maximum authority is delegated to operations in 10 geographical areas, each of which functions as an autonomous profit center, and offers technical and marketing assistance to bottlers in its part of the world.

Those bottlers in the past decade have, by their aggressive market development, facility expansion, and reinvestment for growth, enabled Pepsi-Cola to make rapid, continuing gains on its major competitor.

One of the International division's key decisions 10 years ago was to move into the large potential market of the East European countries—beginning with agreements reached between PepsiCo and the governments of Yugoslavia and Rumania in 1965, and culminating with the opening in 1974 of the Soviet Union's first plant producing an American-originated consumer brand product, Pepsi-Cola. The original decision and all subsequent ones were in line with the American government's policy of encouraging a broadening of trade with Eastern Europe in non-strategic materials as a means of building better and more peaceful relations between our respective peoples—a policy which has led to the hopeful prospects now embodied in the concept of détente. Now, in such countries as East Germany, Poland, Hungary and Czechoslovakia, Pepsi-Cola has become as familiar and popular a part of daily life as it is in North Carolina, Spain, Singapore or the North Pacific islands.

**Wines and spirits.** Sales of Monsieur Henri Wines, Ltd., a small family-owned distributorship when it was acquired by PepsiCo in 1972, have since nearly doubled.

In the early 1970s, the nation's consumers had clearly begun creating a new mass market in the spectrum of beverage preferences between soft drinks and hard liquor: they had developed a liking for wine. U. S. consumption of wines grew from 183 million gallons in 1965 to last year's total of 343 million; within that trend, imported wines—especially the less expensive ones—were growing at an even faster rate.

Monsieur Henri was the importer of one of the best and most popular new wine favorites, Yago Sant'Gria, a Spanish blend of red wine and citrus juices—a product that in 1965 hadn't even existed. It was also the American importer of a broad range of quality table wines, including the respected Piat and Cartier labels of France and the Weber wines of Germany, as well as the holder of U.S. distribution rights for Russian-made Stolichnaya vodka, whose marketing in America became an element in the agreement to market Pepsi in the USSR.

Stolichnaya vodka gave PepsiCo entry into another rapidly expanding market: total U.S. vodka sales grew from 10.8 million cases in 1965 to over 25 million in 1975. Advertising and promotional effort for Stolichnaya, along with greatly increased distribution in major vodka markets, has succeeded in building for this distinctive product, the only Russian-made vodka sold in America, an expanding position in a field of long-established domestic brands.

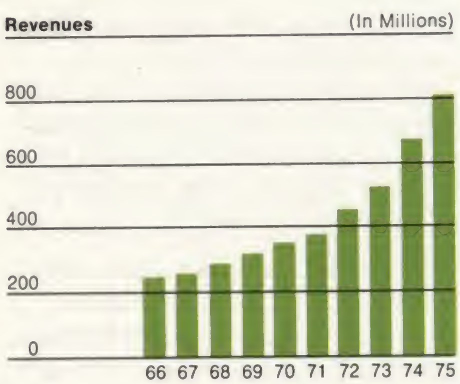
Top: Stolichnaya vodka helped open the door to a rapidly expanding market for PepsiCo.

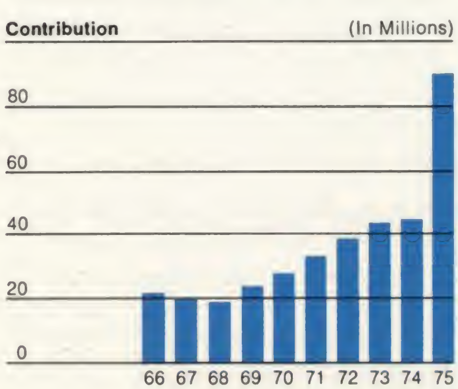
Below: The fine wines of Monsieur Henri include those of France's prestigious Piat line.

# Food

Top: The Frito-Lay research and development building, circa 1965.

Below: The modern R&D facility which now serves Frito-Lay. Its staff has grown from 38 employees in 1965 to 284 today.




Advanced engineering techniques have helped Frito-Lay greatly increase potato chip production in its existing plants, rather than build new ones.

Combined sales of PepsiCo's domestic and foreign food operations have increased nearly fourfold from \$242.8 million in 1966 to \$806.7 million in 1975; in that period, their profit contribution has grown even faster from \$21.1 million to \$89.5 million. (See charts on opposite page.)

At the time PepsiCo was formed in 1965, Frito-Lay, Inc. was just completing an expansion of its distribution base that made Lay's and Ruffles potato chips the first such products nationally available —and nationally advertised via TV and other media—in America.

It had even then its industry's most advanced research and development capability. As a result, its basic brand items, Fritos corn chips and Lay's potato chips, had been augmented not only by Ruffles ridged potato chips but by a number of other successful line additions—including Doritos tortilla chips, introduced in 1965 and now one of the division's best-selling products. (The combined sales of four new products introduced within the last 10 years now nearly equal the company's total sales in 1965.)

Of major importance was Frito-Lay's well-trained route sales force, making daily sales calls on every principal food store outlet in the nation, and providing immediate access to the market for product innovations—on a selective basis during the testing phase, and rapidly throughout the system for those that scored well.

**Domestic food operations.** Evidence of the profit potential of snack and convenience foods—with soft drinks, the fastest-growing products sold in grocery stores—came not only from Frito-Lay's ris-

Snacking is part of recreation; a growing line of Frito-Lay products appeals to an ever-wider variety of tastes and preferences.

Opposite: Doritos tortilla chips, in four flavor versions, has become one of Frito-Lay's most successful product innovations.


ing sales, but from increasing competition, as major companies entered the field with their own lines, hoping to win consumers away. The effect, however, was not to erode Frito-Lay's leadership, but to expand the total consumer market for all such products.

As the leader, Frito-Lay paid constant attention to quality. At its field laboratories, geneticists carried on far-ranging research programs to improve the characteristics of select strains of corn, potatoes and other agricultural raw materials used in its products. Over 300,000 potato varieties have been screened in the last 10 years; today over half the potatoes the company uses come from strains it developed itself.

Training and route planning programs improved the number of daily sales calls made by Frito-Lay salesmen from 61,000 in 1965 to 120,000 in 1975. They now make as many sales calls in a single day as the average grocery package goods sales force makes in a period of two months.

Meantime, a thorough analysis of the company's operating efficiency was in progress. Studies showed that in many cases the application of advanced engineering techniques could substantially improve productivity in existing facilities, reducing the need for capital commitment to new construction. (At Frito-Lay headquarters in Dallas, they call it the "Double-in-Place" program.) That approach has already shown results: one plant, by ingeniously eliminating hitherto undiagnosed production-line bottlenecks, has raised its potato chip production 37 percent. Similarly, a fleet maintenance program for refurbishing route


Doritos
Tortilla Chips
Toasted Corn Taste


Lay's

Opposite: Their freshness and consistent high quality have made Lay's potato chips America's favorite.

Chee•tos cheese puffs: one of the outstanding snack products of Frito-Lay research.

trucks, giving them years of extra life, was implemented. Other programs have developed processing techniques that greatly increase the finished-product yield of agricultural ingredients.

The combined result of these efforts has been a marked increase in productivity, a slowdown in the division's capital requirements, an improvement in cash flow, and a consequent gain in Frito-Lay's contribution to overall corporate profitability.

**International food operations.** From a minor component of PepsiCo's total food business in 1965, overseas food operations in several countries have moved through their early development phase to become growing contributors to total sales and corporate profitability. Sales have more than tripled since 1969, from less than $30 million to over $100 million.

One of PepsiCo's long-range objectives was to blend Pepsi-Cola's marketing knowledge and overseas experience with Frito-Lay's organizational skills and leadership in the snack food business. Steps were taken in that direction even as the new corporation began coordinating its functions.

At first, food operations outside the U.S. were limited to a few small companies. Then, in December, 1965, PepsiCo acquired a snack food producer in Mexico.

The development of the Mexican operation was to become a testing ground and ultimately a model for the corporation's expansion strategies. A small existing business with an established brand (and a distribution fleet consisting of 37 bicycles) was acquired, rather than entering the market

Opposite: Once Fritos corn chips were a regional product; now, all America enjoys them.

Below: Sabritas potato chips, Mexico's most popular, has been a major success story for PepsiCo Foods International for several years now. (Others are in the making.)

"from scratch." Then, virtually every element of the business was systematically rebuilt according to principles that had proved their success elsewhere in the PepsiCo organization. The Mexican potato chip sold under the Sabritas trademark remained Mexican in taste and identity, and soon became known as well for its consistent quality and freshness, for much broader availability throughout the country, for appetizing companion products—and for steadily mounting sales increases and profitability. Throughout Mexico today, one sees brightly painted trucks (more than a thousand) with its familiar smiling-face mark.

In 1973, all foreign food operations—in Mexico, Spain, Canada, Venezuela, Sweden and Japan—were consolidated under a single authority for the first time, and new strategies were set in motion for their development.

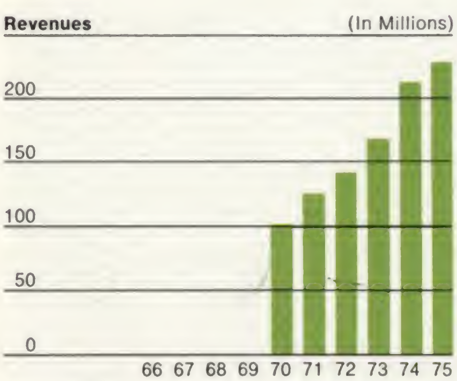
Having decided that more intensive pursuit of market penetration in the most promising "core countries" of the business (Mexico, Spain, Venezuela and, later, Brazil) offered the best base for profitable operation and for future expansion into other areas, PepsiCo Foods International (now a separate corporate division) augmented and upgraded its management, and began a concentrated program that soon produced successful innovations in products, packaging, graphics, advertising and merchandising methods and materials.

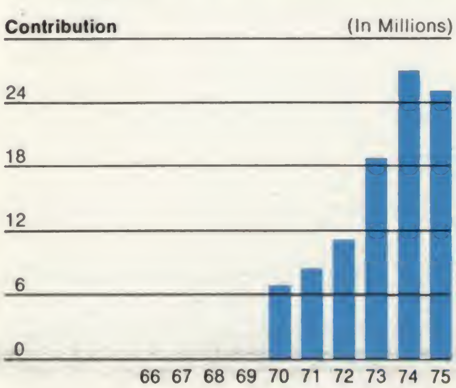
As a result, a long-term objective of PepsiCo's creation, the development of a major source of future corporate income from international food operations, is solidly on its way to realization.

# Sporting Goods

As tennis boomed in America, Wilson supplied the equipment used by enthusiastic amateurs as well as that used by leading professionals.

Above: In 1965, the Wilson line of tennis rackets included a large number of models, covering a broad span of price levels—but the Jack Kramer autograph was its only top-grade offering for men. Today's line includes three metal and three wood models, attracting a much larger share of the top-quality market.




PepsiCo's impact on Wilson Sporting Goods Co. has produced a major improvement: sales have risen 126 percent since 1970, from \$100.4 million that year to \$226.9 million in 1975; profit contribution has grown 266 percent from \$6.8 million to \$25.0 million. (See charts at left.)

It was fully appropriate that PepsiCo, seeking new business opportunities, would turn to the field of sports and leisure-time activities, to which its refreshment and convenience food products offer a natural accompaniment.

In 1970, therefore, PepsiCo acquired a 74-percent controlling interest in Wilson, one of the oldest established, most respected names in the industry. Acquisition of the remaining minority interest was completed in 1972.

**Domestic sporting goods operations.** There was never a question about the quality of Wilson's product line—it was excellent; the reputation it enjoyed was unsurpassed. But a conservative approach to the business and the tendency to cling to traditional "full-line" offerings in all sports detracted from its profit picture. Despite its leadership position, therefore, the company's potential had yet to be exploited fully.

The catalog of its fine equipment had grown through the years with each product advancement. However, attempting to satisfy every price level frequently resulted in back-orders on high-profit, fast-moving items and an excessive inventory of less popular ones.

The new management team installed by PepsiCo set new priorities in marketing, sales, manufacturing, distribution and re-


5
3
Staff

Opposite: "Wilson Staff" on a golf club means it's the kind used by the top stars on the professional circuit.

Below: Both the National Football League and the National Basketball Association have chosen Wilson's as their official ball.

search. As a result, this upgraded organization produced impressive gains in sales and profit contribution, from a product line that was reduced in size by 25 percent.

Product development was given renewed emphasis, and a flow of new Wilson products began appearing on the market—more in a matter of months than the company had produced in years. Some outstanding examples: the T3000 and T4000 series steel tennis rackets; greatly improved tennis and golf balls; and new lines of golf clubs for both professional and week-end players, including the new industry standard—the Wilson 1200 pro clubs. In the area of team sports, development of a baseball glove and mitt line combining select imports with top quality domestic products brought Wilson to a position of eminence. From products that hadn't existed in 1970, Wilson by 1975 was deriving 33 percent of its tennis sales, 70 percent of its golf sales, and 45 percent of its sales in team sports items.

Sales territories were realigned, call frequencies were matched more closely to account potential, and the productivity of a leaner but better trained and better paid sales force was increased from an average of fewer than three calls daily to more than five. While manpower and costs declined, Wilson's sales in five years more than doubled.

Distribution once handled by small, poorly organized warehouses was consolidated into strategic locations with automated order-processing facilities. They offer vastly improved customer service and, in most cases, next-day delivery of Wilson's im-


You don't buy something you live with every day, like a baseball glove, without making sure you get the right one. So you buy a Wilson.

portant professional golf and tennis items.

As its distribution system improved and demand for its products increased, a major expansion of plants producing golf and tennis equipment was completed.

Wilson maintained its prestige image of quality leadership in the professional and institutional sports world. Wilson manufactures the official uniforms for a majority of major-league baseball teams. Its equipment is used and endorsed by top-ranking professionals in every sport in which it competes—many of whom, as members of its sports advisory staff, contribute their first-hand knowledge in suggesting product improvements, as well as making numerous public appearances on behalf of Wilson.

**International sporting goods operations.** Wilson products are marketed outside the U.S. in 129 countries and territories.

During the 1970s, its fastest-growing market has been Japan, which has experienced a boom in golfing interest. The popularity of its Wilson 1200 clubs, as well as other Wilson professional club lines, has made Wilson the undisputed leader among imported products.

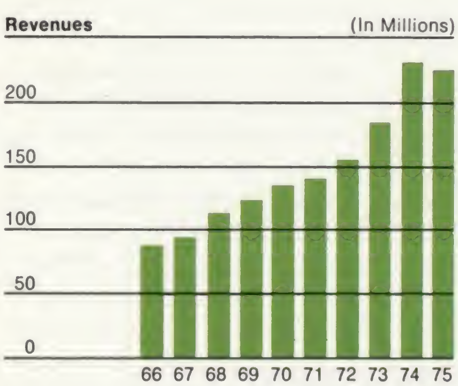
Meanwhile, sales in Canada have expanded significantly, based on steady growth in pro and dealer golf clubs and in tennis rackets.

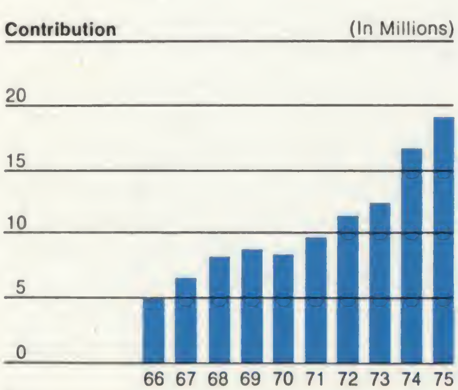
Rising sales in the United Kingdom and Europe led in 1974 to a major expansion of golf equipment production at Wilson's manufacturing plant in Scotland, and construction of a new plant in Ireland for tennis equipment.

When golf became almost a craze in Japan, that country's players quickly learned, at shops like Matsuda's in Tokyo, that "Wilson" means quality.

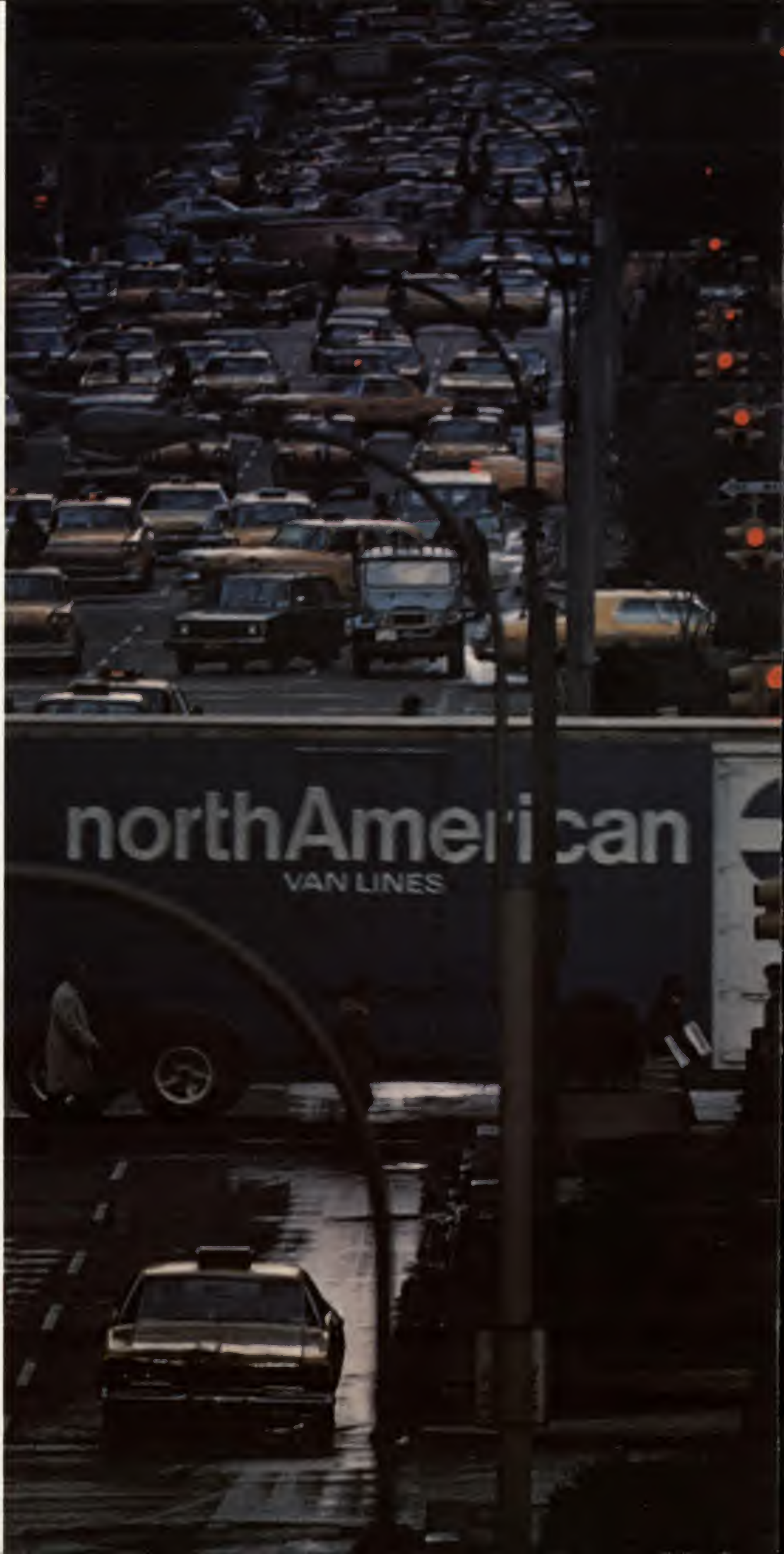
# Transportation


Above: A northAmerican van of 1965. (At right, one of the current fleet, crossing New York's Park Avenue.)





External factors slowed northAmerican somewhat during the year—but it still came through with a profit increase.

Revenues of PepsiCo's transportation services increased 156 percent from $87.1 million in 1966 to $222.7 million in 1975; contribution rose 267 percent from $4.9 million in 1966 to $18.1 million in 1975. (See charts on opposite page.)

Within a few months after PepsiCo was formed, the new corporation acquired a number of operations which gave it entry into a new area: consumer and industry service in the field of transportation.

Since then, several profitable elements have been developed or acquired—beginning with the acquisition of a leading mover of household and industrial goods, northAmerican.

**Domestic transportation operations.** As had the corporation's other acquisitions, the transportation business quickly began to evolve in positive directions under PepsiCo's management. At northAmerican, while the household business continued to grow, special attention was given to broadening the opportunity represented by "new products" moving—of appliances, uncrated furniture and sophisticated electronic equipment. The strong base gained in this field would, during the recession period of the mid-1970s, provide northAmerican with an important alternative source of revenue.

In 1972, northAmerican demonstrated its growing role as its industry's leader by installing a pioneering computerized information system to provide access to data on all shipments in transit and available equipment—greatly facilitating more efficient scheduling and better, faster responses to customer inquiries. One result: consumer complaints—an industry-wide problem once considered

PepsiCo Building Systems, Inc. (formerly Mobilease Corp.) obtained a $23.3 million contract last year to deliver 1,862 relocatable units for use as classroooms by the State of Florida—one of the largest single undertakings of its kind in history—and is aggressively pursuing expansion of the marketing opportunity created by this welcome alternative to the rising costs of new construction.


unavoidable—began to shrink dramatically.

Despite the variety of difficulties experienced by this division during the fuel shortage and economic slump, it has continued to reshape and develop its concepts of service, while instituting highly successful internal control procedures to maximize its returns. Thus, although it performed comparatively well during a difficult 1975, its total revenues declined slightly, yet the division was still able to show an increase in its contribution to PepsiCo's profit.

It is this outstanding record of performance which encouraged PepsiCo last year to agree to acquire Lee Way Motor Freight Inc., to enable PepsiCo's transportation division to continue providing quality service to the public.

**International transportation operations.** Through 30 regional service offices and 350 affiliated agents and contractors in over 100 countries abroad, northAmerican can provide moving service between points in most of the world.

**Analysis of Operations.** The year 1975 saw major gains in both revenues and earnings to establish new records—not only in absolute terms, but also in the rate of profit growth. Sales and other operating revenues increased 11% to $2.32 billion, while net income and earnings per share rose by 20% to $104,600,000 and $4.41, respectively. This 20% advance in earnings far exceeded the gain in any other year in PepsiCo's ten-year history.

During 1975, inflation gradually subsided from the rapid pace experienced in 1974. As consumer confidence improved with the economic recovery in mid-year, unit volumes began to return to normal levels, enabling PepsiCo to register modest volume increases for 1975. The 1974 revenue increase of 23% resulted primarily from price increases, while unit volume increased slightly less than 10%.

The effect of price increases instituted in late 1974, together with a stabilization in manufacturing costs and increases in productivity, enabled PepsiCo to achieve a good recovery in its gross profit margins. These margins had been adversely affected in 1974 by sharp cost increases, primarily in the prices of agricultural and packaging materials, which caused production costs to increase more rapidly than revenues.

Marketing, administrative and other expenses in 1974 and 1975 reflected a higher level of business activity, the inflationary effects on costs, and furthermore, in 1975, increased advertising spending and pension costs. Included in "Other Expenses" in 1974 was a provision of $8.3 million for the discontinuance of a French snack food subsidiary which had incurred operating losses throughout 1974. No further charges to income resulted from the discontinuance of this business in 1975.

PepsiCo's significantly lower interest expense in 1975 resulted from a reduction of $145,000,000 in total debt by year-end and from lower prevailing interest rates. This contrasts with the increase in interest expense experienced in 1974 which was due to sharply higher interest rates and debt levels, primarily as a result of increased working capital needs.

The decrease in the equity in net income of PepsiCo Leasing Corporation reflects a slowdown in the rate of new business written. As further explained in Notes 1 and 2 to the financial statements, PepsiCo has agreed to sell the Chandler Leasing Division of PepsiCo Leasing Corporation. The remaining continuing leasing operations are now consolidated. During 1975, PepsiCo also divested the assets of its St. Louis bottling operations (see Note 9) and certain foreign bottling operations; this had no significant effect on results of operations but contributed to a slowdown in the rate of revenue growth in the latter part of 1975.

U.S. and foreign income taxes were 45.6% of income before such taxes in 1973, 42.1% in 1974, and 44.3% in 1975. The lower 1974 effective tax rate was caused primarily by the relatively larger proportion of earnings of certain foreign operations which are subject to an aggregate tax rate of less than 48%.

As a result of the exceptional earnings rise in 1975, the growth rate in earnings for the most recent five year period has risen to 12.1%. For the decade since PepsiCo was formed by the merger of Pepsi-Cola and Frito-Lay in 1965, the growth rate is 10.4%. PepsiCo's program to increase productivity and improve asset utilization had a major impact in 1975, particularly in terms of increasing returns and strengthening the financial position. Thus, pre-tax income rose from 7% to 8% of total revenues, and revenue turnover on total assets increased by 12%. The combination of improved margins and asset utilization has increased PepsiCo's return on shareholders' equity by one full percentage point—from 15.7% to 16.7%.

**Lines of Business**[1]

**Revenues**

| | 1975 | 1974 | 1973 | 1972 | 1971 | 1970 |
|---|---|---|---|---|---|---|
| Beverage | 46% | 47% | 49% | 47% | 48% | 48% |
| Food | 35 | 32 | 31 | 32 | 31 | 31 |
| Transportation | 9 | 11 | 10 | 11 | 11 | 12 |
| Sporting Goods | 10 | 10 | 10 | 10 | 10 | 9 |
| Totals | 100% | 100% | 100% | 100% | 100% | 100% |

**Contribution** to income before income taxes, corporate interest and expenses

| | 1975 | 1974 | 1973 | 1972 | 1971 | 1970 |
|---|---|---|---|---|---|---|
| Beverage | 45% | 55% | 56% | 58% | 61% | 63% |
| Food | 37 | 23[2] | 26 | 26 | 25 | 24 |
| Transportation | 8 | 8 | 7 | 8 | 7 | 7 |
| Sporting Goods | 10 | 14 | 11 | 8 | 7 | 6 |
| Totals | 100% | 100% | 100% | 100% | 100% | 100% |

[1]Restated for revised presentation of leasing subsidiaries (see Note 1 to Financial Statements).

[2]Includes operating losses of the French snack food subsidiary but excludes termination costs associated with discontinuing this subsidiary in January 1975.

The most significant change in 1975 was in the food line of business, where revenues increased substantially, and margins improved because of gains in operating efficiency and the effects of price increases made in late 1974. While beverage revenues and profits rose in

total, their growth was slowed by a decline in the wine business. Transportation reflected a modest dollar gain in contribution on slightly lower revenues, while sporting goods had a moderate gain in revenues but a small decline in contribution, following their exceptional gains in 1974.

PepsiCo's operations outside the United States for the two years 1974 and 1975 accounted for 22% and 23%, respectively, of the total worldwide revenues, and 20% and 17%, respectively, of total contribution to income before taxes and corporate interest and expenses. Although foreign earnings increased in absolute terms in 1975, they declined as a percentage of total contribution because of the exceptional rate of growth in domestic operations.

**Stock Price and Dividends.** The market price range for PepsiCo stock on the New York Stock Exchange and the dividends declared in each quarter of the last two years are set forth in the table below. Quarterly dividends were increased 33% in the period from 30¢ to 40¢. The stock price declined sharply in 1974, in line with the general market trend, and then recovered even faster than the market averages in 1975. As of February 27, 1976, the price of PepsiCo stock was 71⅛.

| | Market Price Range ($) | | | Dividend |
|---|---|---|---|---|
| Quarter | High | Low | Close | Declared |
| 1974— | | | | |
| 1st qtr. | 71¾ | 56⅛ | 63⅝ | 30¢ |
| 2nd qtr. | 65 | 50¾ | 64¾ | 30¢ |
| 3rd qtr. | 64⅞ | 39¾ | 42⅝ | 35¢ |
| 4th qtr. | 47½ | 29¼ | 39¼ | 35¢ |
| 1975— | | | | |
| 1st qtr. | 61¼ | 39½ | 59¼ | 35¢ |
| 2nd qtr. | 70 | 56 | 68 | 35¢ |
| 3rd qtr. | 68⅞ | 56¾ | 56¾ | 40¢ |
| 4th qtr. | 74¼ | 54½ | 72 | 40¢ |

**Capitalization and Financing.** Total consolidated debt of PepsiCo declined by $145,376,000 during 1975 to its lowest level in three years. This is attributable not only to the strong earnings performance, but also to management's intensive efforts towards improvement in asset utilization in each of the lines of business with particular emphasis on reducing overall working capital levels.
In line with its stated objectives, PepsiCo expects that continuing emphasis on improving return on corporate assets employed will lead to a further reduction in the company's financial leverage in 1976. Absolute debt levels outstanding during 1976 are not expected to exceed those during 1975.

This debt reduction, from $488,762,000 to $343,386,000, coupled with the record shareholders' equity increase of $70,247,000 to $627,173,000 has significantly added to PepsiCo's overall financial strength and flexibility.

| | 1975 | 1974 |
|---|---|---|
| | (in thousands) | |
| Current borrowings—domestic | $ 27,400 | $ 91,591 |
| —foreign | 30,913 | 45,535 |
| Total current | 58,313 | 137,126 |
| Long-term debt—current | 2,758 | 2,638 |
| —non-current | | |
| —senior | 226,838 | 293,435 |
| —subordinated | 55,477 | 55,563 |
| Total long-term debt | 285,073 | 351,636 |
| Total interest-bearing debt | $343,386 | $488,762 |

**Capital Expenditures.** As planned, 1975 capital spending declined to $74,000,000 from $113,000,000 in 1974. This was the result of increased emphasis on asset utilization, major 1974 capacity additions, and a lessened rate of unit volume growth. All investment opportunities which met PepsiCo's return on investment objectives and were necessary to support future business growth, were assigned high priorities. Unit volume growth is expected to increase to more normal rates in 1976 and, accordingly, capital spending is anticipated to increase to the $100,000,000 level.

## Consolidated Balance Sheet (in thousands)

PepsiCo, Inc. and Subsidiaries
December 27, 1975 and December 28, 1974

| | 1975 | 1974 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $ 18,945 | $ 14,979 |
| Marketable securities, at cost (approximates market) | 150,645 | 109,540 |
| Notes and accounts receivable, less allowance: 1975—$15,812; 1974—$13,269 | 262,753 | 263,170 |
| Inventories | 229,274 | 267,041 |
| Prepaid expenses | 33,053 | 31,378 |
| | 694,670 | 686,108 |
| **Investments and Long-Term Receivables** | | |
| PepsiCo Leasing Corporation—at equity | 19,903 | 28,627 |
| Long-term receivables and other investments | 55,517 | 56,409 |
| | 75,420 | 85,036 |
| **Property, Plant and Equipment** | | |
| Land | 27,557 | 31,193 |
| Buildings | 157,981 | 154,676 |
| Machinery and equipment | 448,169 | 432,575 |
| Bottles and cases | 44,289 | 59,902 |
| | 677,996 | 678,346 |
| Less accumulated depreciation | 244,727 | 232,963 |
| | 433,269 | 445,383 |
| **Goodwill**—cost in excess of net assets of companies acquired | 120,233 | 121,197 |
| **Other Assets** | 40,327 | 43,184 |
| | $1,363,919 | $1,380,908 |

See accompanying notes.

| | 1975 | 1974 |
|---|---|---|
| **Liabilities and Shareholders' Equity** | | |
| **Current Liabilities** | | |
| Notes payable (including current installments on long-term debt) | **$ 61,071** | $ 139,764 |
| Accounts payable and accrued liabilities | **266,665** | 215,587 |
| United States and foreign income taxes | **33,861** | 31,242 |
| Customers' deposits on bottles and cases | **22,041** | 25,314 |
| | **383,638** | 411,907 |
| **Long-Term Debt** | **282,315** | 348,998 |
| **Other Liabilities and Deferred Credits** | **17,393** | 15,577 |
| **Deferred Income Taxes** | **53,400** | 47,500 |
| **Shareholders' Equity** | | |
| Capital stock, par value 16⅔¢ per share; authorized 30,000,000 shares; issued and outstanding: 1975—23,750,889 shares; 1974—23,722,950 shares | **3,958** | 3,954 |
| Capital in excess of par value | **91,182** | 89,932 |
| Retained earnings | **532,033** | 463,040 |
| | **627,173** | 556,926 |
| | **$1,363,919** | $1,380,908 |

## Consolidated Statement of Income and Retained Earnings (in thousands)

PepsiCo, Inc. and Subsidiaries
Years ended December 27, 1975 and December 28, 1974

| | 1975 | 1974 |
|---|---|---|
| **Net Sales and Other Operating Revenues** | **$2,321,243** | $2,094,298 |
| **Costs and Expenses** | | |
| Cost of sales and services | **1,298,277** | 1,202,652 |
| Marketing, administrative and other expenses | **821,468** | 717,639 |
| Interest expense | **34,771** | 43,157 |
| Interest income | **(17,733)** | (15,981) |
| | **2,136,783** | 1,947,467 |
| | **184,460** | 146,831 |
| Provision for United States and foreign income taxes (including deferred: 1975—$19,700; 1974—$10,600) | **81,712** | 61,757 |
| | **102,748** | 85,074 |
| Equity in net income of PepsiCo Leasing Corporation | **1,852** | 2,345 |
| **Net Income** | **104,600** | 87,419 |
| Retained earnings at beginning of year | **463,040** | 406,447 |
| Cash dividends (per share: 1975—$1.50; 1974—$1.30) | **(35,607)** | (30,826) |
| Retained earnings at end of year | **$ 532,033** | $ 463,040 |
| **Net Income Per Share** | **$ 4.41** | $ 3.69 |

See accompanying notes.

## Consolidated Statement of Changes in Financial Position (in thousands)

PepsiCo, Inc. and Subsidiaries
Years ended December 27, 1975 and December 28, 1974

| | 1975 | 1974 |
|---|---|---|
| **Financial Resources Provided** | | |
| Operations | | |
| Net income | **$104,600** | $ 87,419 |
| Depreciation and amortization | **52,420** | 48,341 |
| Deferred income taxes | **19,700** | 10,600 |
| Other | **1,059** | 233 |
| Total from operations | **177,779** | 146,593 |
| Capital stock (including conversion of debentures) | **1,254** | 1,775 |
| Long-term debt | **103,693** | 197,137 |
| Property disposals | **18,203** | 11,423 |
| Bottles and cases, net | **15,613** | (6,017) |
| | **316,542** | 350,911 |
| **Financial Resources Applied** | | |
| Dividends | **35,607** | 30,826 |
| Plant and equipment | **73,541** | 113,186 |
| Long-term debt | **170,376** | 81,173 |
| Other | **187** | (6,759) |
| | **279,711** | 218,426 |
| Increase in working capital | **$ 36,831** | $132,485 |
| **Increase (Decrease) in Working Capital, by Element** | | |
| Cash and marketable securities | **$ 45,071** | $ 2,500 |
| Notes and accounts receivable | **(417)** | 62,458 |
| Inventories | **(37,767)** | 84,175 |
| Prepaid expenses | **1,675** | 16,850 |
| Notes payable | **78,693** | (5,171) |
| Accounts payable and accrued liabilities | **(51,078)** | (13,378) |
| United States and foreign income taxes | **(2,619)** | (9,188) |
| Customers' deposits on bottles and cases | **3,273** | (5,761) |
| Net increase in working capital | **36,831** | 132,485 |
| **Working Capital at Beginning of Year** | **274,201** | 141,716 |
| **Working Capital at End of Year** | **$311,032** | $274,201 |

**Note 1—Summary of significant accounting policies.**

Principles of Consolidation. All domestic and foreign subsidiaries, except certain leasing subsidiaries carried at equity, have been consolidated. Prior to 1975, all leasing subsidiaries were reported on the equity method because their business is substantially different from PepsiCo's other businesses. PepsiCo has agreed to sell the major division of PepsiCo Leasing Corporation (see Note 2). The remaining leasing operations are not significant and have been consolidated, except for PepsiCo Truck Rental Inc., whose results are included in "other expenses" on the equity basis. The accompanying 1974 financial statements have been restated to conform to the 1975 presentation; such restatement had no effect on net income or shareholders' equity.

Foreign Operations. In general, assets and liabilities are translated into U.S. dollars at year-end exchange rates, except for inventories and property, plant and equipment, which are translated at rates in effect at the time these assets were acquired. Income accounts are translated at rates prevailing during the year, except that inventories charged to cost of sales and depreciation are based on the historical equivalent dollar costs of the related assets. Foreign currency gains and losses, including those arising from translation and forward exchange contracts, are included in income, except that translation adjustments pertaining to long-term debt are deferred and amortized over the remaining life of the debt. Statement of Financial Accounting Standards No. 8, issued in October, 1975, becomes effective in 1976 and relates to translation of foreign currency transactions and financial statements. Application of this statement is not expected to have a material effect on PepsiCo's consolidated financial position or results of operations.

Inventories. Inventories are stated at the lower of cost (computed on the average or first-in, first-out method) or net realizable value.

Property, Plant and Equipment. Land, buildings and machinery and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over estimated service lives of the respective assets. Upon the sale or retirement of property, the property accounts and the related depreciation reserves are appropriately adjusted and any profit or loss is reflected in income. Maintenance and repairs are charged to expense as incurred.

Valuation of returnable bottles and cases is based on periodic physical inventories of those in-plant and on estimates of those in-trade. In-plant and estimated in-trade breakage is charged to cost of sales. Returnable bottles and cases of domestic operations are carried at deposit value. In foreign operations, returnable containers purchased prior to 1974 are carried at cost and those purchased since December 29, 1973 are carried at deposit value.

Goodwill. Costs in excess of net assets of companies acquired, totaling approximately $65,000,000 at December 27, 1975, are being amortized over appropriate periods not exceeding 40 years. Approximately $55,000,000, relating to certain companies acquired prior to adoption of Accounting Principles Board Opinion No. 17 in 1970, are not being amortized since there is no indication that they have diminished in value.

Marketing Costs. Costs of advertising and other marketing and promotional programs are charged to expense during the year, generally in relation to sales, and, except for materials in inventory and prepayments, are fully expensed by the end of the year in which the cost is incurred.

Income Taxes. PepsiCo includes the operations of U.S. subsidiaries in its consolidated federal income tax return.

Deferred income taxes arise from timing differences between financial and tax reporting, principally for depreciation and income recognition on certain leases. Benefits from investment tax credits are amortized over the useful lives of the related assets.

Additional taxes which would result from dividend distributions by foreign subsidiaries to the U.S. parent are provided to the extent dividends are anticipated. All other undistributed earnings of foreign subsidiaries have been reinvested indefinitely in foreign operations. No provision has been made for the additional taxes, not material in amount, that might be payable in the event of remittance of these earnings.

Net Income Per Share. Net income per share is computed by dividing consolidated net income by the average number of common shares and common share equivalents (stock options) outstanding during each year. The conversion of all convertible debentures and Performance Share Plan units would result in a dilution of less than 3%.

**Note 2—PepsiCo Leasing Corporation.** In January, 1976, PepsiCo executed an agreement with Walter E. Heller International Corporation (International) for the sale of the Chandler Leasing Division of PepsiCo Leasing Corporation (PLC), to Walter E. Heller & Company (Heller), a

subsidiary of International. The Closing of the transaction is subject to certain conditions, primarily approval by the Federal Reserve Board.

Under terms of the agreement, PepsiCo will receive $21,000,000 in 5½%, non-voting, convertible preferred shares of Heller. The preferred shares can be converted at any time prior to December 31, 1991 into shares of International common stock at a conversion price of the higher of 115% of the average closing price of International stock for the ten trading days prior to the Closing or $32 per common share of International. Unless previously converted, the Heller preferred stock will be redeemed annually in specified amounts, beginning in 1983.

The investment in PLC represents PepsiCo's gross investment of $54,000,000 reduced by $34,000,000 of deferred taxes and investment tax credits previously recorded on PepsiCo's balance sheet. After considering the $21,000,000 sales value, taxes and other amounts related to the sale, no significant effect on PepsiCo's results of operations is expected. The investment in PLC's remaining smaller operations, which PepsiCo intends to sell, is stated at equity which is not greater than estimated realizable value.

At December 31, 1975, PLC had consolidated total assets of $262,000,000, including $199,000,000 in lease and contract receivables. Its 1975 revenues amounted to $34,000,000.

**Note 3—Foreign operations.** Total assets and total liabilities of consolidated subsidiaries and branches outside the U.S. and Puerto Rico at December 27, 1975 were $294,755,000 and $139,690,000, respectively. Sales to customers outside the U.S. were $528,390,000 in 1975 and $464,046,000 in 1974.

At year end 1975, foreign currency financial statement translation credits of $2,400,000, arising in 1975 and relating to Argentinian operations were deferred because of presently uncertain business conditions in Argentina; excluding these deferred amounts, there was a pretax foreign currency loss of $2,900,000 in 1975. In 1974, there was a gain of $900,000. These gains and losses are before the effects of exchange rate changes on related operating results expressed in U.S. dollars. A translation charge, related to the 6¼% Swiss franc loan, of $6,750,000 was deferred at December 28, 1974. This deferral was reduced in 1975 by $600,000 due to changes in Swiss franc exchange rates and by $497,000 of amortization, resulting in a net deferral of $5,653,000 at December 27, 1975 which is included in "Other Assets".

Currency fluctuations subsequent to December 27, 1975 have not had a material effect upon PepsiCo.

In the fourth quarter of 1974 PepsiCo established a provision of $8,300,000 for the discontinuance of a French snack food subsidiary in January, 1975. After tax benefits related to the write-off of the investment, there was a charge of $1,500,000 to net income in the fourth quarter of 1974. Operating losses had been recorded throughout 1974.

**Note 4—Long-term debt.** At December 27, 1975 and December 28, 1974, long-term debt (less current installments) consisted of:

| | 1975 | 1974 |
|---|---|---|
| | (in thousands) | |
| 8⅝% notes due 1981 | $ 75,000 | $ 75,000 |
| 8¼% notes due 1985 | 100,000 | — |
| 6¼% 60,000,000 Swiss franc loan, due Sw. Fr. 5,000,000 annually from 1984 to 1987, with the balance due in 1988 | 22,800 | 23,400 |
| Revolving credit notes | — | 100,000 |
| Revolving Eurocredit notes | — | 65,000 |
| 4½% convertible debentures due 1981 | 5,648 | 6,858 |
| 4¾% convertible subordinated debentures due $2,500,000 annually from 1982 to 1995, with the balance due in 1996 | 49,990 | 50,000 |
| Other | 28,877 | 28,740 |
| | $282,315 | $348,998 |

Proceeds from the $100,000,000 note issue due 1985 were used to reduce short-term borrowings and revolving credit notes outstanding. Subsequently, PepsiCo cancelled both of its revolving credit agreements.

The debt agreements to which PepsiCo is a party include various restrictions, none of which are deemed significant to PepsiCo.

**Note 5—Capital stock and capital in excess of par value.** Shares reserved at December 27, 1975 were as follows:

| | |
|---|---|
| Stock options | 1,035,355 |
| 4½% convertible debentures (at $46.50 per share) | 121,463 |
| 4¾% convertible subordinated debentures (at $63.50 per share) | 787,245 |
| Performance share plan | 579,534 |
| | 2,523,597 |

At December 27, 1975, options were outstanding on 409,772 shares (of which 130,700 were then exercisable) having an aggregate option price of $27,676,000. The balance of 625,583 shares reserved is available for future grants under the Company's 1969 and 1975 Plans. In 1975 options for 1,775 shares were exercised having an

aggregate option price of $93,000; options were granted for 158,044 shares having an aggregate option price of $10,448,000, and options for 61,898 shares were cancelled.

Under the 1972 Performance Share Plan for key executive employees, as amended, the Compensation Committee of the Board of Directors may award up to 650,000 performance share units, each unit being limited to the market value of a share of PepsiCo capital stock on date of grant. A participant's award is forfeited if he voluntarily terminates employment during the award period. Units are not earned or paid unless PepsiCo achieves stated cumulative growth rates in net income per share over the four-year period following the award.

Payments may be made in cash, or in capital stock, or combination thereof, as the Committee decides. In January 1976, 70,466 of the original 81,581 units awarded had been earned by participants under the 1972 award. The remaining 11,115 units were cancelled at various times during the four-year period. During 1974, a net total of 111,772 units were awarded, of which 102,896 were outstanding at December 27, 1975. The cost of the awards made under the Plan is being charged to income ($2,311,000 in 1975 and $2,307,000 in 1974) over the applicable four-year period. Participants may elect in advance to defer receipt of payment of awards.

The increases in capital in excess of par value for 1975 and 1974 were the excess of proceeds or conversion price over par value of shares issued for:

| | Shares | | Amount | |
|---|---|---|---|---|
| | 1975 | 1974 | 1975 | 1974 |
| | | | (in thousands) | |
| Stock option plans | 1,775 | 9,800 | $ 92 | $ 503 |
| Conversion of debentures | 26,164 | 28,928 | 1,158 | 1,265 |
| | 27,939 | 38,728 | $1,250 | $1,768 |

**Note 6—Leases and commitments.** PepsiCo and its subsidiaries have commitments for rental of office space, plant and warehouse facilities, vehicular equipment and other personal property. Rental expense in 1975 and 1974 was $21,844,000 and $18,950,000, respectively. Lease commitments expiring at various dates to 2032 have minimum aggregate annual rentals (exclusive of insurance, taxes and repairs), declining from approximately $13,000,000 in 1976 to $6,000,000 in 1980 and lesser amounts thereafter.

At December 27, 1975, PepsiCo and its subsidiaries were contingently liable under guarantees aggregating $7,866,000.

**Note 7—Income taxes.** U.S. and foreign income taxes have been provided at less than the statutory U.S. federal rate of 48% since unremitted earnings of foreign operations are subject to a lower aggregate tax rate. This is principally because earnings of a U.S. subsidiary operating in Puerto Rico (which have been invested in marketable securities) are not taxable.

Prepaid taxes of $9,400,000 in 1975, and $12,600,000 in 1974, including future income tax benefits attributable to the termination of a French snack food subsidiary, are included in "Prepaid expenses."

**Note 8—Pensions.** PepsiCo and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees (mostly non-union) and certain of its employees outside the U.S. PepsiCo's policy is to accrue and fund current cost and interest on prior service cost. The excess of vested benefits over fund assets of two of the plans was approximately $5,000,000; for all plans combined, assets exceeded vested benefits.

Pension expense was approximately $14,500,000 in 1975 and $9,000,000 in 1974. The increase was due primarily to improvements made in 1975 in PepsiCo retirement benefits.

**Note 9—Litigation.** In 1971, the Federal Trade Commission (FTC) issued complaints against eight soft drink manufacturers, including PepsiCo and its principal competitors, alleging that exclusive territorial restrictions imposed upon its soft drink bottlers in the United States unreasonably restrained trade. In October, 1975, the FTC Administrative Law Judge dismissed the complaint against PepsiCo, and counsel for the FTC appealed this decision to the FTC. Management and its counsel cannot evaluate the future financial or business effects, if any, on its domestic concentrate and syrup manufacturing or soft drink bottling business should the dismissal be reversed by the FTC and that reversal subsequently affirmed by the courts, thereby resulting in a final determination that such exclusive territorial restrictions are illegal.

PepsiCo and its subsidiaries are involved in various other litigation matters, but believe that any such litigation will not have a material effect on the consolidated financial statements.

The Company intends a vigorous defense of these matters.

In 1975, PepsiCo divested its St. Louis soft drink bottling operations and Flavette Corporation in compliance with a 1974 consent order of the FTC. The transaction had no significant effect on PepsiCo's financial statements.

**Note 10—Merger with Lee Way Motor Freight, Inc.** In October, 1975, PepsiCo and Lee Way Motor Freight, Inc. reached an agreement providing for the merger of the two companies. Under the agreement, PepsiCo will issue shares of its capital stock valued at $50,438,000 for the outstanding Lee Way common stock. The transaction will be accounted for as a pooling-of-interests and is not expected to significantly affect PepsiCo's consolidated financial statements.

Closing of the transaction is subject to a number of conditions, including approval by the Interstate Commerce Commission and other regulatory agencies.

## Report of Certified Public Accountants

Board of Directors and Shareholders
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 27, 1975 and the related consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 27, 1975 and December 28, 1974 and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

277 Park Avenue
New York, N.Y.
February 17, 1976

## Ten-Year Comparative Summary
PepsiCo, Inc. and Subsidiaries

| | 1975 | 1974 | 1973 |
|---|---|---|---|
| **Summary of Operations** (in thousands except per common share) | | | |
| Net sales and other operating revenues | **$2,321,243** | $2,094,298 | $1,701,177 |
| Cost of sales and services | **1,298,277** | 1,202,652 | 932,139 |
| Marketing, administrative and other expenses | **821,468** | 717,639 | 613,135 |
| Interest expense | **34,771** | 43,157 | 25,784 |
| Interest income | **(17,733)** | (15,981) | (11,357) |
| | **2,136,783** | 1,947,467 | 1,559,701 |
| | **184,460** | 146,831 | 141,476 |
| U.S. and foreign income taxes | **81,712** | 61,757 | 64,579 |
| | **102,748** | 85,074 | 76,897 |
| Equity in net income of PepsiCo Leasing Corporation | **1,852** | 2,345 | 2,699 |
| Net income | **104,600** | 87,419 | 79,596 |
| Per common share | **$ 4.41** | $ 3.69 | $ 3.36 |
| Cash dividends | **35,607** | 30,826 | 26,968 |
| Per common share | **$ 1.50** | $ 1.30 | $ 1.14 |
| Additions to property, plant and equipment | **73,541** | 113,186 | 90,813 |
| Depreciation and amortization | **52,420** | 48,341 | 41,796 |
| Average common shares outstanding | **23,745** | 23,710 | 23,664 |
| **Year-End Position** (in thousands except per common share) | | | |
| Working capital | **311,032** | 274,201 | 141,716 |
| Property, plant and equipment—net | **433,269** | 445,383 | 382,819 |
| Total assets | **1,363,919** | 1,380,908 | 1,171,788 |
| Long-term debt | **282,315** | 348,998 | 233,034 |
| Shareholders' equity | **627,173** | 556,926 | 498,558 |
| Per common share | **$26.41** | $23.48 | $21.05 |
| Common shares outstanding | **23,751** | 23,723 | 23,684 |
| **Statistics and Ratios** | | | |
| Current assets to current liabilities | **1.8 to 1** | 1.7 to 1 | 1.4 to 1 |
| Return on shareholders' equity | **16.7%** | 15.7% | 16.0% |
| Return on revenues | **4.5%** | 4.2% | 4.7% |
| Long-term debt/total capitalization | **31.2%** | 38.7% | 32.4% |
| Employees | **49,000** | 49,000 | 49,000 |
| Shareholders | **42,000** | 44,000 | 46,000 |

This summary has been retroactively adjusted for (a) companies acquired in transactions accounted for as poolings of interest (except for Monsieur Henri Wines, Ltd., which is included only since 1971 and which did not have a material effect on prior years) and for (b) a two-for-one stock split in 1967. All sales of Wilson Sporting Goods Co. have been included from the time of purchase in February 1970, and earnings have been included in proportion to PepsiCo's ownership. United Beverages Inc., acquired in late 1972, has been included since 1973. Leasing subsidiaries other than PepsiCo Leasing Corp. have been restated to conform to the 1975 presentation (see Note 1).

*Before extraordinary items

| 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 |
|---|---|---|---|---|---|---|
| $1,402,831 | $1,241,028 | $1,124,642 | $951,980 | $850,636 | $759,728 | $691,720 |
| 750,457 | 671,932 | 614,909 | 506,385 | 453,949 | 400,717 | 357,457 |
| 517,663 | 447,215 | 401,336 | 351,489 | 310,058 | 285,138 | 264,009 |
| 15,117 | 15,615 | 15,969 | 6,935 | 6,662 | 6,915 | 5,754 |
| (7,988) | (6,697) | (4,557) | (4,183) | (3,096) | (2,937) | (2,862) |
| 1,275,249 | 1,128,065 | 1,027,657 | 860,626 | 767,573 | 689,833 | 624,358 |
| 127,582 | 112,963 | 96,985 | 91,354 | 83,063 | 69,895 | 67,362 |
| 58,502 | 50,922 | 41,350 | 42,063 | 39,423 | 29,301 | 28,346 |
| 69,080 | 62,041 | 55,635 | 49,291 | 43,640 | 40,594 | 39,016 |
| 2,638 | 990 | 418 | 2,593 | 2,814 | 1,937 | 1,336 |
| 71,718 | 63,031 | 56,053 | 51,884* | 46,454 | 42,531 | 40,352* |
| $ 3.05 | $ 2.71 | $ 2.49 | $ 2.33* | $ 2.10 | $ 1.93 | $ 1.85* |
| 23,324 | 22,895 | 22,594 | 21,758 | 19,785 | 18,993 | 17,192 |
| $ 1.00 | $ 1.00 | $ 1.00 | $ .975 | $ .90 | $ .875 | $ .80 |
| 57,373 | 54,336 | 63,802 | 71,382 | 40,462 | 38,621 | 37,497 |
| 34,369 | 30,414 | 26,380 | 24,878 | 22,918 | 21,501 | 18,798 |
| 23,525 | 23,248 | 22,547 | 22,286 | 22,144 | 22,021 | 21,816 |
| | | | | | | |
| 145,073 | 134,893 | 80,970 | 37,982 | 68,992 | 69,874 | 72,890 |
| 327,181 | 306,167 | 278,563 | 234,678 | 204,069 | 179,190 | 161,726 |
| 955,193 | 855,488 | 782,086 | 569,831 | 501,454 | 445,251 | 425,346 |
| 217,185 | 198,360 | 177,742 | 91,112 | 68,273 | 73,505 | 81,040 |
| 440,768 | 384,032 | 331,240 | 288,659 | 264,163 | 235,511 | 208,916 |
| $18.70 | $16.43 | $14.58 | $12.90 | $11.90 | $10.66 | $ 9.54 |
| 23,564 | 23,372 | 22,715 | 22,386 | 22,196 | 22,100 | 21,906 |
| | | | | | | |
| 1.6 to 1 | 1.6 to 1 | 1.3 to 1 | 1.2 to 1 | 1.4 to 1 | 1.5 to 1 | 1.6 to 1 |
| 16.3% | 16.4% | 16.9% | 18.0% | 17.6% | 18.1% | 19.3% |
| 5.1% | 5.1% | 5.0% | 5.5% | 5.5% | 5.6% | 5.8% |
| 33.5% | 34.5% | 35.5% | 25.0% | 21.3% | 24.4% | 28.5% |
| 40,000 | 37,000 | 36,000 | 30,000 | 28,000 | 25,000 | 19,000 |
| 46,000 | 47,500 | 49,000 | 52,000 | 51,000 | 49,000 | 47,000 |

**PepsiCo, Inc. Directors**

Donald M. Kendall*
*Chairman of the Board and Chief Executive Officer, PepsiCo, Inc.*

Herman W. Lay*
*Chairman of the Executive Committee, PepsiCo, Inc.*

Andrall E. Pearson*
*President, PepsiCo, Inc.*

Victor A. Bonomo
*President and Chief Executive Officer, Pepsi-Cola Company and Vice President, Beverage Operations (U.S.), PepsiCo, Inc.*

Clifton C. Garvin Jr.
*Chairman and Chief Executive Officer, Exxon Corp.*

Harold R. Lilley
*Chairman of the Board and Chief Executive Officer, Frito-Lay, Inc. and Vice President, Food Operations (U.S.), PepsiCo, Inc.*

William L. Lindholm
*President, American Telephone & Telegraph Co.*

James M. Roche*†
*Member of the Board of Directors and Finance Committee, General Motors Corporation*

Herman A. Schaefer
*Executive Vice President Finance and Administration, PepsiCo, Inc.*

Robert H. Stewart III*†
*Chairman of the Board, First International Bancshares, Inc.*

Peter K. Warren
*President, PepsiCo International and Vice President, International Operations, PepsiCo, Inc.*

*Member of Executive Committee
†Member of Audit Committee

**Executive Offices**

**PepsiCo, Inc.**
Purchase, New York 10577
(914) 253-2000

**Principal Divisions and Subsidiaries**

**Pepsi-Cola Company**
Purchase, New York 10577
Victor A. Bonomo, *President*

**Frito-Lay, Inc.**
Frito-Lay Tower, Exchange Park,
Dallas, Texas 75235
Harold R. Lilley, *Chairman*

**Monsieur Henri Wines, Ltd.**
700 Anderson Hill Road,
Purchase, New York 10577
James P. Schadt, *President*

**PepsiCo International**
Purchase, New York 10577
Peter K. Warren, *President*

**PepsiCo Transportation**
PepsiCo Place, 525 South Main,
Tulsa, Oklahoma 74103
Richard J. Caley, *President*

**Wilson Sporting Goods Co.**
2233 West Street, River Grove, Ill. 60171
Thomas P. Mullaney, *President*

**PepsiCo Foods International**
Purchase, New York 10577
John Sculley, *President*

**Annual Meeting**

The Annual Meeting of stockholders will be held at the offices of the Corporation, Purchase, New York, at 10:00 a.m. (E.D.T.) Wednesday, May 5, 1976. Proxies for the meeting will be solicited by management in a separate Proxy Statement. This report is not a part of such proxy solicitation and is not to be used as such.

**Officers**

Donald M. Kendall
*Chairman of the Board and Chief Executive Officer*

Herman W. Lay
*Chairman of the Executive Committee*

Andrall E. Pearson
*President*

Herman A. Schaefer
*Executive Vice President, Finance and Administration*

Robert J. Abernethy
*Vice President, Manufacturing*

Victor A. Bonomo
*Vice President, Beverage Operations (U.S.)*

Stillman B. Brown
*Vice President, Treasurer*

Richard J. Caley
*Vice President, Transportation*

Cartha D. DeLoach
*Vice President, Corporate Affairs*

Robert G. Dettmer
*Vice President, Financial Management and Planning*

Gerald J. Fischer
*Vice President, Corporate Development*

Edward V. Lahey, Jr.
*Vice President, General Counsel and Secretary*

Harold R. Lilley
*Vice President, Food Operations (U.S.)*

Harvey Luppescu
*Vice President, Tax Administration*

James P. McSherry
*Vice President, Personnel*

Thomas P. Mullaney
*Vice President, Sporting Goods*

Harvey C. Russell
*Vice President, Community Affairs*

Peter K. Warren
*Vice President, International Operations*

I. M. von der Heyden
*Controller*

Vincent M. Burke
*Assistant Controller*

C. Robert Smelas
*Assistant Controller*

W. Lamar Lovvorn
*Assistant Secretary*

Walter S. Rosenstein
*Assistant Secretary*

Jerome T. Dilettuso
*Assistant Treasurer*

William T. Leitner
*Assistant Treasurer*

William R. Lewis
*Assistant Treasurer*

**Auditors**

Arthur Young & Company
277 Park Avenue, New York, New York 10017

**Transfer Agents**

Marine Midland Bank—New York
485 Lexington Avenue,
New York, New York 10017
(212) 692-3120

First Jersey National Bank
One Exchange Place,
Jersey City, New Jersey 07303
(201) 333-1300

First National Bank in Dallas
P.O. Box 6031, Dallas, Texas 75283
(214) 744-8464

Opposite: PepsiCo's contribution to the nation's Bicentennial celebration was its sponsorship, with three other leading firms, of the American Freedom Train, a traveling exhibit of documents, artifacts and memorabilia honoring 200 years of American achievements in a variety of fields. During the first year of its tour, which will include all 48 contiguous states by the end of 1976, it was visited by more than 2,800,000 people in 52 cities.

**Registrars**

The Chase Manhattan Bank N.A.
One Chase Manhattan Plaza,
New York, New York 10015
(212) 552-2222

First National Bank in Dallas
P.O. Box 6031, Dallas, Texas 75283
(214) 744-8464

**Dividend Reinvestment Agent**

Citibank, N.A.
111 Wall Street,
New York, New York 10015
(212) 825-5715

Shares of PepsiCo, Inc., capital stock are listed and traded on the New York and Midwest Stock Exchanges.

Copies of the Corporation's Form 10-K Report to the Securities and Exchange Commission may be obtained without charge from the Director of Corporate Communications, PepsiCo, Inc., Purchase, N.Y. 10577.

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